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TRANSCRIPT

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PRESENTATION***

Operator: Greetings and welcome to the Emeritus Corp. First Quarter 2012 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host Brad Cohen of ICR. Thank you Mr. Cohen, you may begin.

Brad Cohen - Senior Managing Director, ICR, IR: Thank you very much, operator. Today we have Granger Cobb, President and Chief Executive Officer; Rob Bateman, Chief Financial Officer; and also in the room today is Chris Hyatt, Chief Operating Officer.

Before we begin today, I would like to remind everyone of the Safe Harbor provisions under the Private Securities Litigation Reform Act of 1995. The following prepared remarks contain forward-looking statements and management may make additional forward-looking statements in response to your questions. These statements do not guarantee future performance and therefore undue reliance cannot be placed on them.

For a more detailed discussions of the factors that could cause actual results to differ materially from those suggested in any forward-looking statements, the Company refers you to the most recent filings on Form 10-K with the Securities and Exchange Commission.

With that, it is my pleasure to turn the call over to Chief Financial Officer, Rob

Bateman. Rob?

Robert C. Bateman - EVP and CFO: Thank you, Brad. On our Q4 conference call a few months ago, we talked about achieving margin improvement by keeping our expense increases below the growth of our revenue. We accomplished this in the first quarter of 2012 which enabled us to improve our operating margin over the prior Q1 such that we exceeded out cash flow guidance.

For the first quarter of 2012, consolidated revenue increased $22.8 million or 7.6% to $323 million compared to the first quarter of 2011. The consolidated increase is due to community acquisitions between the two periods, primarily the 24 communities we acquired on June 1, 2011 from a joint venture with Blackstone. Management fee revenue decreased 7.4% between the periods as a result of the acquisition of the 24 JV communities that prior to our acquisition we operated under a management contract. This decrease was partially offset by higher management fees due to improved revenue from the larger joint venture with Blackstone in which we manage 139 communities.

Our same community average rate per unit was about the same Q1 to Q1. Our average rate per unit is a blended rate that includes all of our service offerings. We are the largest provider of assisted living and memory care services in the United States and the vast majority of our consolidated revenue 88% in Q1 is from private pay sources. That being said, 5% of our revenue is from skilled nursing resident paying through Medicare.

In the CMS rate reduction effective October 1, 2011 impacted our average rate per unit, otherwise average rate per unit would have increased 0.7% Q1 over Q1 instead of being relatively unchanged. As of January 1, 2012 our same community definition changed to include 34 additional communities including 10 communities that offer skilled nursing services, so the skilled component now has a greater impact on same community results.

I mentioned in our Q4 call a few months ago we are testing rate increases throughout select communities. We have started to see traction on rate and remain confident that we will improve rate over the course of the year. Consolidated occupancy was up 60 basis points Q1 to Q1 and we improved same community occupancy 20 basis points over that same period. We experienced some seasonal softness in occupancy Q4 to Q1 but we remain confident that occupancy will modestly improve in the second half of 2012.

We're pleased with our expense controls in which we have focused on efficiencies while maintaining quality of care, in a world in which expenses are

expected to rise we actually decreased our same community operating expenses Q1 over Q1 by 0.1%. That decrease would have been larger if not for the extra leap year day in Q1 2012 that added about $1 million to same community operating expenses.

Same community operating expenses reflected 8.2% decrease in salaries, salary and wages, decreases as in health insurance and other employee benefits, as well as decreases in utilities due to a milder winter. These decreases were partially offset by increases in professional liability insurance and certain other expense categories.

On a per resident day basis, same community salaries and wages decreased by 1.9% due primarily to the enhanced labor management platform implemented in 2011. We expect to continue to show controlled labor efficiency variances in the first half of 2012 based on our implementation of efficiency programs midway through 2011.

Both consolidated and same community operating margin improved on a consolidated basis. Community operating income increased $8.8 million or 9.2% from the first quarter 2011 and operating margin improved to 32.9% from 32.5%. On a same community basis operating margin increased to 33.2% as compared to 33% in the first quarter of last year.

Excluding non-cash stock-based compensation expenses, general and administrative expenses dropped to 4.9% in the first quarter of 2012 compared to 5.1% in the first quarter of 2011. G&A expenses increased by less than 1% from prior year first quarter, we continue to focus on improving overhead efficiencies.

In addition to cash generated from operating activities that you can find in our statement of cash flows, we provide additional cash flow measures. Adjusted EBITDAR increased 10.3% to $89.3 million in the quarter, as adjusted CFFO per share increased 15.2% to $0.38 per share compared to $0.33 per share in the first quarter of 2011.

In the first quarter routine capital expenditures totaled $4.5 million which represented a sequential increase of about $800,000 from the fourth quarter of 2011. We expect to continue to increase our 2012 routine capital expenditures in line with the guidance that I will provide momentarily.

While we did not complete any acquisitions during the first quarter, we continue to evaluate potential transactions. We will remain selective and disciplined in our pursuit of additional communities, while we focus attention on improving

operations in our total portfolio. To that end, we are investing more on CapEx during 2012 in order to create additional value. This is an important part of our growth strategy to invest in our communities so that we have the right product offerings which will position us to drive occupancy and rate market by market.

As of March 31, 2012 we had $50 million of cash. Excluding capital leases we had $76 million in debt classified as current as of March 31 with refinancing plans underway. In calendar 2013, we have $38 million coming due, so the upcoming maturities are very low and very manageable.

We provided calendar 2012 guidance in the press release earlier today. That guidance is unchanged from what we provided in our Q4 call a few months ago. We expect 2012 consolidated revenue to be in the range of $1.3 billion to $1.32 5 billion. We expect routine CapEx to be from $24 million to $26 million. We expect, G&A as a percent of revenue for all communities in our operated portfolio to be at 4.8% for the full year 2012 and that is excluding non-cash stock compensation expense. We expect adjusted CFFO for the year to be in the range of $1.60 to $1.70 per share.

As in the past, our press release provides supplemental information including projected Q2 cash basis rent and interest as well as projected Q2 depreciation.

That completes my prepared remarks. Granger?

Granger Cobb - President and CEO: Thank you, Rob. As we discussed on our last call, we anticipate expanding margins throughout the first half of the year largely through efficient expense management and we expect that margin growth in the second half of the year will be primarily a function of improving rate growth.

Our first quarter results were consistent with plan as we expanded our consolidated community operating margin by 40 basis points to 32.9% and our same community margin by 20 basis points to 33.2%. First quarter revenue increased $22.8 million through acquisitions and same community growth. Year-over-year average occupancy improved by 60 basis points and average monthly rate increased 1.6%.

We also grew two measures of cash flow. Adjusted EBITDAR grew by 10.3% and adjusted CFFO per share improved 15.2%. While our industry is still feeling the effects of economic challenges, the business fundamentals and demographics remain favorably aligned with a steadily aging population and limited supply growth. The confluence of these two factors with the impacts of healthcare reform and an eventual improvement in our country's overall economic health

will result in an acceleration of our key business metrics. Additionally, this is a highly fragmented industry and given Emeritus' track record as a consolidator and positioned as one of the largest national providers of senior living services, we should be the beneficiary.

We have demonstrated that we can control costs without compromising our service levels or resident care, and we remain committed to keeping our expense growth below our revenue growth in order to drive margin improvement. We manage to modestly reduce our overall expenses year-over-year, while actually increasing costs related to employee training and retention.

Similarly, our G&A efficiency continues to be one of the best in the sector and year-over-year total G&A expenses increased by less than 1%. As we grow, our overhead efficiency we'll continue to improve.

During the balance of the year, our focus will be on revenue growth through improving rate and occupancy. Our strategy is in part to bring a laser-focused to targeted communities that are underperforming relative to their market and/or our expectations. As a part of this process, we are investing in our regional and divisional teams to enable them to comprehensively evaluate and strategically position assets within their respective markets in a manner that better aligns the community's offerings with the competitive demand opportunities.

We have determined that if we invest human and capital resources consistent with a viable plan, we will generate positive returns. For example, in looking at the last 11 memory care conversions that we undertook, we invested a total of $2.5 million or about 227,000 per project and we realized the total internal rate of return of 17% by the fourth quarter following project completion. Going through this exercise in some cases can also result in the decision to shed assets that we have determined are not a good long-term fit.

At the end of the day, the objective is to operate an extremely high-quality portfolio that provides a valuable service and produces reliable cash flows. We're also continuing to position Emeritus in the post-acute care continuum. As hospital systems begin to deal with a shift to outcome-based Medicare reimbursement later this year, senior living will increasingly serve as a key component in their go-forward strategies.

One of the biggest issues, the hospital systems and physicians group space is monitoring a patient's compliance with medications and physicians orders after their discharge. We can help. So, Emeritus is pursuing the development of strategic alliances that will position us as the preferred resource in our key

markets. This will take some time. It is a very cost effective way for us to increase our referral base. As always, we are seeking sustainable long-term growth opportunities with minimal risk. This strategy has served as well in the past, and we look to secure additional revenue drivers to better position ourselves to deliver growth in our cash flow.

One embedded future growth driver is our Blackstone Columbia Pacific joint venture portfolio that continues to outperform. In the first quarter, occupancy was up 540 basis points year-over-year and 710 basis points since been acquired in Q3 of 2010. The key to this significant improvement was the adoption of Emeritus operating system's training and support at the community level and the initial capital improvement investments to enhance each community. While the focus has been to drive occupancy, and get each community moving towards the average occupancy of their respective markets, we have begun adjusting our focus toward a more balanced approach that incorporates more rate growth.

External growth will continue, yet we will main selective as we evaluate opportunities. The industry remains highly fragmented and we expect that there will continue to be consolidation opportunities. Our first choice will be to add communities in markets where we can differentiate our offerings and leverage our infrastructure and referral relationships.

CFFO for the quarter improved year-over-year and we expect continued growth in the second half of the year as we make headway on improving rate. The fundamentals of senior living remain compelling and our business continues to be one of the most efficiently operated in the sector, which will continue to lead to more growth opportunities. Over the past five years, despite economic headwinds, our compounded annual growth rate for adjusted CFFO per share is in excess of 25%.

We generally acquire properties in which we can identify opportunities to improve operations and then it's about developing the appropriate strategy and executing on it. We expect that as Medicare reimbursement changes, place of premium on hospital post discharge outcomes, we will be a beneficiary. In addition, when consumer confidence in the overall economy begins to show sustained improvement, we will see an acceleration of our revenue drivers.

Emeritus has a seasoned and talented team and scalable systems to deliver the very highest quality care and service to our existing portfolio of communities and two additional acquisitions and development opportunities that may present themselves. This will ensure our ability to continue to maximize cash flow and increase shareholder value in the future.

With that thank you for taking the time to listen in and we will now take questions. Operator?

Q&A***

Operator: Kevin Fischbeck, Bank of America Merrill Lynch.

Q: Kevin Fischbeck - Bank of America Merrill Lynch: A couple of questions. First, on occupancy, I guess, do you have any thoughts or more specific guidance about where you think occupancy is going to be for the year?

A: Granger Cobb - President and CEO: Well, I think - we think it's going to move up from here probably pretty modestly. As I mentioned in comments, we've got a big focus on rate right now, and if we can just modestly improve occupancy and maximize the rate opportunity that's kind of the direction we're headed.

Q: Kevin Fischbeck - Bank of America Merrill Lynch: So, I think like the NIC data was kind of pointing to something like 90 basis point increase in industry occupancy. Your plan is - you are happy being below that. Does it mean you can push rate a little bit more?

A: Granger Cobb - President and CEO: Yes, exactly.

A: Robert C. Bateman - EVP and CFO: Kevin, keep in mind that the NIC data is a combination of AL and IL. The IL is moving at a more rapid pace across the industry, and we're more heavily weighted towards AL.

Q: Kevin Fischbeck - Bank of America Merrill Lynch: Then you mentioned deals as being something that you're looking at, but I guess in the past, you've had different guidance around deal regarding a few per quarter. I mean do you feel like, if you did five deals that would be a lot this year or do you think there is enough kind of one-off things out there right now as evaluations have become more rational?

A: Granger Cobb - President and CEO: That's a tough one. We're so opportunistic. They kind of seem to come in bunches when we have those opportunities. We've looked it at several things so far this year and really haven't found anything that we've pursued. So, I would say that I mean judging just by from beginning of the year to now, if we did five total, that's probably a pretty good mark. There is nothing - I don't really have anything to point to as a range of what I think is out there right now, but like I say those tend to come

in bunches. So, we'll have to wait and see.

Q: Kevin Fischbeck - Bank of America Merrill Lynch: Any update on the ancillary service side of things?

A: Granger Cobb - President and CEO: Ancillary services is we're kind of treading water where we've been for the last couple of quarters, and we're still in talks with a number of operators in that area, but we just we haven't moved forward as of yet. Probably would be more about end of the year thing, if we were to go forward.

Q: Kevin Fischbeck - Bank of America Merrill Lynch: I guess I understand your view about kind of CFFO growth, it sounds like you expect more kind of year-over-year growth in Q2, but mostly on expenses second half of the year, you'll be benefiting more from the rate side of things and expect growth in the second half of the year, but if you're starting point for rate growth is basically 0.7, I mean realistically you're probably only going to be getting to a couple percentage points in pricing, I would guess by year end. So, you still have to kind of hold the line on costs. I mean do you feel good about keeping that expense line item relatively under-wrapped for the second half of the year, and it sound like you're going to anniversary some of the things that you've been doing. Why do you have to kind of keep a lid on our cost growth in the second half of the year?

A: Granger Cobb - President and CEO: Yeah. We're feeling good about the cost structure. I think we've got a very good control on the - our biggest expense, which is labor. We're managing it very closely. We've got a good tracking system now to make sure that we're managing it relative to occupancy and acuity. So that's a big piece of us feeling good about holding the expenses underneath our rate growth. I think that we are going to see rate accelerate. Probably, your estimate is pretty close, and I think that it is going to be another year where we keep expenses under very close watch and make sure that we're not letting the expense creep past our rate growth.

Operator: Daniel Bernstein, Stifel Nicolaus.

Q: Daniel Bernstein - Stifel Nicolaus: I should probably know this, but did you raise your rates quarterly at the anniversary of a lease or do you raised rates, you kind of raised rates in the first quarter of each year. I just want to kind of understand, how your rate increase is actually going to occur?

A: Granger Cobb - President and CEO: We raised them on the anniversary of

the residence move-in date. So, they are spread throughout the year, although, I'd say that, and they do - they are going to be weighted heavier on the months that we have more move-in. So, we're kind of coming into the period now where historically we usually have more move-ins and like April through the summer month, and so that's - it tends to be a little more concentrated in some of those months, but it spread out throughout the year.

Q: Daniel Bernstein - Stifel Nicolaus: Then I saw some press releases that in your facilities, there are developments that are opening up, and maybe you could a little bit about those facilities that you're developing, are they similar to what you operate now, are the more on the memory care side, and maybe talk a little bit about that trade-off between development and acquisitions, and well as other investments that you are looking at?

A: Granger Cobb - President and CEO: Well...

Q: Daniel Bernstein - Stifel Nicolaus: Did I see that correctly, I mean.

A: Robert C. Bateman - EVP and CFO: Dan, the only development that we have opened up recently was a joint venture just a one-off type of a deal, and that was opened in the summer of last year. We are working with Columbia Pacific. Columbia Pacific is doing some new development, but none of those have opened here recently. So, we're anticipating some opening up later in the year.

Q: Daniel Bernstein - Stifel Nicolaus: As I looking to that, like there is open house. I think I might have misread that. You are probably as confused as I am now. Alright, we'll move on. I guess I also want to understand again what moved into the same store number - those properties - the properties have moved into the same store, was that HCP lease, the 27 properties?

A: Robert C. Bateman - EVP and CFO: The 27 communities. That's correct.

A: Granger Cobb - President and CEO: The 27 HCP properties that came on in November 2010, right.

A: Robert C. Bateman - EVP and CFO: That was the biggest piece. There were some other ones, but that was majority.

Q: Daniel Bernstein - Stifel Nicolaus: I guess looking year-over-year, you had an increase in occupancy, was that - how much of that increase was on the same store came from those 27 properties, and how much from the properties that you already had in the same store. I'm trying to understand of that impact for that 27 or just the properties that you added there at the same store?

A: Robert C. Bateman - EVP and CFO: It would have had a relatively minor impact just because we got almost 300 communities in the same community portfolio. So, it's about 10%. We did have some improvement in occupancy in particular in the skilled component. There are 10 of those communities, 10 of the 27 that have skilled, and we did focus on improving occupancy to help us offset some of the CMS rate reductions, and so that was part of our strategy to help offset, but it wouldn't have had a huge impact, Dan.

Q: Daniel Bernstein - Stifel Nicolaus: Obviously, you did mentioned that the rate impact already, and so I guess we understand that. Any update on the performance of the Blackstone JVs, the former Sunwest properties, you think previously you've given some tidbits out on occupancy or how those properties are going, and what can you tell us about that, those JVs at this point?

A: Granger Cobb - President and CEO: So, far that portfolio has been just - it's been performing very, very well, outperforming our initial underwriting to this point. We were really focused on occupancy initially and we kind of shifted, and we're starting to get some good rate growth out of that portfolio now, and still seeing an occupancy growth. So, it's doing extremely well. I only wish that the - our whole entire consolidated portfolio would perform as well as that has over the last year or so. But it's been a real pleasant surprise.

Q: Daniel Bernstein - Stifel Nicolaus: So you think a lot of the hard work on that portfolio has been accomplished maybe a little bit? You probably put a lot of effort and focus on that. There is a little bit more effort and focus for the comeback to the consolidated portfolio as that property stabilizes, is that correct?

A: Granger Cobb - President and CEO: I think that's the case. I mean now all the systems are in and been used. Those communities don't consider themselves new anymore or different in anyways. So, they are all part of the Emeritus operations and mixed in with all of our consolidated communities. So, I think now that probably there the momentum slows a little bit. One of the things that we did do in that portfolio which was one of the advantages of having it in the joint venture with Blackstone is we invested and we continue to invest a significant amount of capital into those buildings in terms of capital improvement. I think part of the reason that we've seen the growth we have to-date and we're continuing to see momentum is because of that capital investment. And so that's the only thing that's been kind of different other than us initially putting in the systems and getting the fraction from that, but that's the only other thing that's been a little different is the degree to which we have

invested capital improvement money into that group of properties, and it's paying off.

Q: Daniel Bernstein - Stifel Nicolaus: When you first became part of that joint venture, when that first was announced, you talked about a hockey stick in management fees and operating margin. Are you on that same trajectory that you've talked about? I guess was it a year or two ago or are you ahead of schedule? How should I think about the ultimate operating margin for those management fees that you're getting, is it still like in the 30% range, I think maybe you previously alluded to or you think it's going to be higher now based on what you see on the performance so far?

A: Granger Cobb - President and CEO: I think it's probably still about where it's been. The management fee margin is not - it's not where we're really going to make our return. Our return is really going to come from the (promote) at the time we're in a position to buy the properties. So I think we're still, a couple of years off from being in a position to really monetize our kind of our equity if you will in that JV portfolio. So, it's between now and then it's probably just kind of more of the same.

Operator: Drew Jones, Stephens Inc.

Q: Drew Jones - Stephens Inc: The market where you guys have started to try and push rate already this year. Can you give us a little color on how aggrieve you are able to be so far?

A: Granger Cobb - President and CEO: We're actually kind of testing it quarterly in the markets that we're - and it's really specific local markets. We're looking at communities that are above 90% occupancy and in those markets we've been testing rates by about $100 a quarter, so and just kind of moving them up and seeing what - so far we haven't seen any slowdown on move-ins or any impact to the occupancy on those highly occupied communities.

Q: Drew Jones - Stephens Inc: You guys have touched on this, but the salary, wages and benefit, just so I still understand it, the initiative that you guys put in last year looks like over the last couple of quarters that's been sufficient to have that slowdown last and then flat this quarter year-over-year. Does that continue through 2Q and 3Q or is it next quarter and then 3Q we start to see it tick back up a little bit again?

A: Granger Cobb - President and CEO: Well next quarter should be more - should be very similar to Q1 in terms of that and then it will pick up a little bit

in Q3, because it was Q3 that we brought it down last year or we started bringing it down last year. So, we're comparing to a lower base when we get to Q3 and Q4. So, it will pick up a little bit when we get to the second half of the year, but we think we're still going to manage it pretty tightly.

Q: Drew Jones - Stephens Inc: Just last thing on CapEx, how should I think about CapEx spending this year and then I guess going forward in terms of seasonality? Is there a pick in 2Q and 3Q, and 1Q and 4Q maybe a little less?

A: Robert C. Bateman - EVP and CFO: Drew, as I mentioned in my prepared remarks, at least I alluded to. Well in the guidance, there is $24 million to $26 million - we're substantially beneath that in the first quarter and so we'll be picking up and it's not so much to do with seasonality, although some types of CapEx work does have some seasonality just because you can't do it in the winter, but we are going to be increasing our CapEx throughout the year just as part of our focused effort on making sure that our communities are where they need to be just from a maintenance standpoint, a look and feel in the local market standpoint. So, we are targeting still that $24 million to $26 million and we'll be increasing quarter to quarter such that we match that for the year.

Operator: I'll turn the call back over to management for closing comments.

A: Granger Cobb - President and CEO: Alright. Well, thank you everyone for tuning in. we appreciate it and have a great rest of your evening. Thank you.

Operator: Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.